

Financial Policies of Polk County, Iowa

INDEX

- A. Purpose
- B. Operating Budget
- C. Capital Budget
- D. Debt Management
- E. Debt Instruments
- F. Debt Issuance
- G. Revenues
- H. Expenditures
- I. Reserves
- J. Investment Practices
- K. Accounting, Auditing and Financial Reporting and External Financial Relationships

A. Purpose

The purpose of Polk County's financial policies is to facilitate decision making by the Board of Supervisors, provide direction for staff and elected officials for handling the County's day to day financial business and to serve as a foundation for long and short range planning. The implementation of sound fiscal policies enables County officials to protect the public interest, ensure public trust and confidence and maintain the fiscal integrity of the County.

B. Operating Budget

1. Operating budgets will be prepared and approved by the Board for all statutory budget funds, internal service funds and enterprise funds prior to the beginning of the fiscal year.
2. The County will integrate goals and performance indicators into the annual budget process.
3. The County's budget documents will be presented in a manner that is easily understood by the public.
4. The Board will be presented with a two-year budget as part of the budget process as a trend analysis tool.
5. Assumptions in the multi-year budget will be clearly drawn out and use the most conservative available assumptions regarding revenue and expenses.
6. Budgets will be prepared in conformity with State Department of Management guidelines. The Board will be furnished additional analyses and schedules to facilitate informed discussion and approval of the budget.
7. The County will pay for all current expenditures with current revenues. The County will avoid budgets that balance current expenditures by strategies such as postponing expenditures into future years, accruing future years' revenues, or rolling over short-term debt.
8. In the event that the County determines it in the best interest of the County to lower its year end general fund balance, it shall determine the amount to be lowered, and shall spend that amount on one-time capital expenditures, and in no event shall those funds be spent toward ongoing annual operating expenses. Any expenditure under this section shall comply with Section I herein.
9. The County will continue its efforts to minimize the financial burden on the taxpayers. The goal will be to offset growth in expenditures with growth in revenues and other sources while avoiding a reduction in fund balance or an increase in tax levy rates. The County notes that Section I herein requires a minimum fund balance as a % of expenditures, and that over time, as expenditures grow, the fund balance must grow through annual operating surpluses in order to maintain the balance as a % of expenditures.
10. The budget will provide for adequate maintenance of the capital plant and equipment and for their orderly replacement. This will be accomplished through the use of annual earmarked capital outlay pools. The pools include but are not limited to office furniture, fixtures and equipment; computer equipment; building repairs; and motor vehicles.
11. The operating budgets approved by the Board will be adhered to unless it is in the best interest of the County to expend additional revenue received during the fiscal year or if unanticipated circumstances require a reallocation of planned expenditures or additional expenditures from reserves. All increases to the budget must be approved by the Board via periodic budget memorandums and semi-annual budget amendments.
12. The Board of Supervisors will be provided periodic financial reports comparing actual revenues and expenditures to budgeted amounts.
13. Every year, the County will update expenditure and revenue projections for the next five years. The projections will cover statutory budget funds, internal service funds and enterprise funds. Also, the projections will include estimated operating costs of future capital improvements that are included in the capital budget.

C. Capital Budget

1. The County will manage County-owned property proactively and strategically to promote the public interest and, whenever possible, to enhance the County's overall financial resources.
2. The County will make capital improvements in accordance with a 5 year capital improvement plan compiled annually by the General Services Department in conjunction with affected County offices and departments. The plan will serve as the basis for capital improvement appropriations and will be presented to the Board prior to the conclusion of budget deliberations for the upcoming fiscal year.
3. The County will utilize data from the five year capital improvement plan as part of the overall County budget process. Future operating costs associated with new capital improvements will be projected and included in the corresponding operating budget.
4. The County will identify the estimated costs and potential funding sources for each capital improvement before it receives final approval from the Board.
5. A separate capital improvement fund will be used to account for major capital improvements. Any unspent bond proceeds remaining in the fund at the completion of the improvement will be transferred to the related debt service fund. Any unspent other revenues remaining in the fund will remain in the

fund for future related improvements or transferred back to the originating funds.

6. Interest earned on bond proceeds in capital improvement funds will be transferred to the related debt service fund at the completion of the improvement unless circumstances warrant an alternate use of the interest income.

D. Debt Management

1. Capital Borrowings. Long-term borrowing will not be considered to fund operational costs.
2. Credit Ratings. The County will seek to maintain the highest level of ratings in order to minimize the County's interest costs and maintain the County's access to credit.
3. Debt Capacity.
 - a. The County will use no more than 50% of its statutory debt limit. The remainder will be preserved to accommodate emergencies. No more than 20% of this scheduled general obligation debt will be issued on behalf of other jurisdictions.
 - b. The County's debt service levy will not exceed 20% of the total countywide levy.
 - c. Average annual payments of principal and interest on all long-term debt paid directly by the County from governmental funds will not exceed 10% of total revenue credited to governmental funds during the most recently completed fiscal year. Annual payments in any given year shall not exceed 15%.
4. Debt Structure.
 - a. When the County finances capital projects by issuing bonds or other forms of debt, it will pay back the bonds within a period not to exceed the expected useful life of the project, but in no case will the pay back period exceed 20 years.
 - b. The County will not exceed an average maturity of 15 years on general obligation bonds.
 - c. The term of revenue bonds shall not exceed the term of dedicated revenue streams.
 - d. The County will generally structure its debt to produce approximately level debt service over the life of the loan. Accelerated or deferred debt will be considered when A) such structures more closely match a dedicated revenue stream and B) such structures confer a demonstrated financial benefit to the County.
5. Refundings.
 - a. The County will review its debt position biennially. Analysis will be performed on the cost/benefit of refunding debt and on the feasibility of calling outstanding maturities.
 - b. Current refundings (bonds sold to refund bonds callable within 90 days of refunding issuance) will be considered with a demonstration of material present value savings
 - c. When possible, current refundings will be combined with new money issuances to reduce costs
 - d. Advance refundings will be considered when demonstrated present value savings is at least 3% of the refunded par amount. Other factors, such as option value and the length of time to the call date may also be considered. In the event that an advance refunding has material negative arbitrage in the escrow, the net present value savings shall be at least 5% of the refunded par amount.
 - e. The County County may consider refundings for non-economic reasons, such as the elimination of burdensome covenants or other management

E. Debt Instruments

1. General Obligation Bonds.
 - a. The County will issue general obligation bonds only for long-term capital improvements meeting the following criteria: A) Aggregate project costs in excess of \$300,000 B) County-wide benefit C) Expected utilization of 10 years or more and D) Projects need to be financed within two years.
 - b. General obligation debt may be used to finance projects for special districts (water, sanitary sewer, drainage) or other local public bodies (e.g., hospitals, cities, aviation authorities) when the cost is to be repaid through fees, special assessments, and other dedicated sources. To the extent possible, multiple projects should be combined into one bond issue to reduce overall costs. When the County finances a project for a third party (for example, another city within the County), it shall receive a note or other instrument documenting the third party's obligation to pay, including appropriate legal opinion as to validity of the note received. Any third party issuing a note or other instrument that is not a general obligation note or instrument payable from a continuing annual levy of ad-valorem property taxes to the County shall fund a one-year's debt service payment reserve. The reserve shall be either held by a third party on behalf of the County or by the Issuer, in the County's sole discretion.
2. Revenue Bonds.
 - a. The County may issue debt secured solely by a pledge of revenues when there is a revenue stream that A) is proven for the timely payment of the debt and B) can secure the debt at cost-effective interest rates.
 - b. The County will not issue revenue bonds without undertaking an affordability analysis, which will

- include A) additional bonds test B) projected coverage analysis and C) cash balance impact.
- c. Revenue bonds will be accompanied by covenants designed to increase the marketability of the bonds and to ensure timely payment.
 3. Inter-fund Loans. Inter-fund loans will be considered as the first option for interim financing.
 4. Notes. Short-term debt, defined as having a maturity of no more than 2 years, is to be avoided if at all possible. Short term debt may be issued to provide interim financing in anticipation of long-term debt, where the board determines that there is a material financial advantage to the County of issuing said short term debt. Short term debt shall not mature longer than six months after the expected completion of the Project.
 5. Capital Leases. Capital leases will generally be avoided unless the equipment has a short life and the capital lease addresses economic obsolescence concerns.
 6. Purchase Contracts. The County will only consider utilizing long-term equipment purchase contracts when it is in the best financial interest of the County and the life expectancy for utilization is at least the length of the purchase contract.
 7. Private Activity Bonds. The County may issue private activity bonds as defined by the Internal Revenue Code for eligible projects. This debt may be limited if it impacts the financial benefits of direct County debt.

F. Debt Issuance

1. The County will generally use competitive sale methods for debt issues. This process may be waived in cases where circumstances such as timing, market conditions, complexity, etc. call for negotiated sale of debt.
2. The County Administrator will recommend to the Board the optimum financing package for each major capital improvement. The Board will then adopt a formal authorization to proceed with the project financing before the debt marketing process is begun.
3. When possible, bid solicitations will be scheduled such that Board action for the award of said bid will occur within one business day of the bid solicitation.
4. Selection of an underwriter in a negotiated process shall, in most cases, be pursuant to a Request for Proposal.
5. Private placement may be considered for small issues (less than \$1 million) for which a competitive process is deemed ineffective or for larger issues financed through a unique loan program which offers more favorable terms than available through a competitive process (e.g., Iowa Finance Authority loan program)
6. The County will use bond proceeds within the time frame set forth by bond documents to avoid arbitrage. The County will maintain a reporting system to meet Internal Revenue Service arbitrage rebate regulations.
7. Fixed interest rates shall be used on County general obligation Bonds and Notes, including short term Notes, and on any utility revenue bonds or notes of the County. Variable interest rate structures will not be utilized by the County.
8. Derivative instruments (for example, interest rate swaps) shall not be utilized by the County on any general obligation bonds or notes, short term notes, or utility revenue bonds or notes. The County may enter into a forward-delivery agreement for purpose of selling a bond in the future at an interest rate agreed to at the time of issuance, so long as the liability to the County is limited to the delivery of the bond or note at the specified date and at the specified interest rate.

G. Revenues

1. The County will diversify its revenue sources where possible as a protection against short-run fluctuations in any one revenue source.
2. The County will take steps necessary to preserve and increase its tax base. Proposals to remove property from the County's tax base via TIF districts and annexations will be carefully reviewed for the long-term financial impact on other taxpayers and the public purpose of the proposals. The County may resist efforts to remove property from the tax base.
3. The County will establish all user charges and fees at a level not to exceed the cost of providing the services, while remaining competitive with similar services offered by other jurisdictions. The County will periodically recalculate the full costs of activities supported by user fees to identify the impact of inflation and other cost increases.
4. Revenues of a limited or indefinite term will be used for one-time operating expenditures or capital projects to ensure that no ongoing service or program is jeopardized when such revenues are reduced or discontinued.
5. The County will apply for grants that are consistent with the County's business plan. All grant applications shall be reviewed for cash match requirements, potential impact on the operating budget and impact on workload of current staff. Departments shall seek Board approval for any grants in excess of \$100,000 prior to submission of a grant application, except for renewal applications for existing grants. Departments shall inform the County Administrator of grant applications for new grants between \$10,000 and \$100,000. Elected officials shall provide written communication to the Board of grant applications in excess of \$100,000. All grant agreements and contracts are required to be approved by Board resolution, as are any grant amendments with fiscal impact.
6. The County will comply with all grant conditions and provisions. In addition grants will be administered in compliance with all applicable state and federal laws, rules, ordinances, regulations and orders as well as all applicable internal County policies and procedures.
7. All positions funded by grant revenue will be identified and tracked in County personnel records. Employees in grant-funded positions will be notified prior to accepting the position that the position may be eliminated when the grant funds expire.

8. For Federal, State and private grants the County will apply for indirect cost reimbursement at the discretion of the County only when doing so increases the grant dollars received or utilized by the County. Recovered indirect cost revenue will be credited as revenue of the office or department managing the grant.
9. The County will include indirect costs in cost analyses used to calculate cost per diem rates or other cost recovery mechanisms. Examples of such cost recovery processes are the Local Administration Expense process for the Department of Human Services and Care of Federal Prisoners reimbursements.
10. All Enterprise and Internal Service Funds may be assessed an indirect cost charge as calculated by the County's indirect cost consultant. The resulting indirect cost revenue will be credited to the County general fund.
11. The County encourages gifts, donations and bequests from the community to provide for services, etc. that might not otherwise be funded. The County will earmark such revenues in an agency fund to ensure that the donated dollars are expended for the intended purposes.
12. Interest earnings on investments are normally credited to the County general fund in conformity with Iowa law. However, the County has elected to allocate applicable interest earnings to the Conservation Land Acquisition Trust Fund, the Donated Funds portion of the Trust and Agency Fund and all Enterprise and Internal Service Funds. Additionally, earnings and interest from investment of bond proceeds shall be credited to the debt service fund and used to pay the principal or interest as the principal or interest come due.

H. Expenditures

1. All County expenditures will be for a public purpose for the benefit of the citizens of Polk County.
2. Budgeted funds will be spent in conformity with the current annual budget subject to the following limitations:
 - Elected Offices:
 - Overall expenditures budget may not be exceeded
 - Encouraged to follow other expenditure budget policies as outlined below for other departments
 - Other Departments:
 - Budget for authorized positions may not be used for other expenditures
 - Budget by activity (as defined by the Uniform Chart of Accounts for Iowa Counties) may not be exceeded
 - Overall fund level expenditures budget may not be exceeded Exceptions to the above limitations must be approved by Board of Supervisors on a Memorandum of Budget Actions
3. Expenditure budgets will be monitored throughout the fiscal year by department heads, elected officials, Board staff and Central Accounting staff.
4. Donated dollars earmarked in the Donated Funds portion of the Trust and Agency Fund will only be expended for the intent for which they were given. Any unspent donated funds at the end of a fiscal year will be carried forward to be expended in a subsequent year.
5. High priority will be given to expenditures that will reduce future operating costs, such as increased utilization of technology and equipment.
6. Expenditures will be made in conformity with the following policies as most recently adopted by the Board:
 - Procurement Manual
 - Travel and Expense Reimbursement
 - Corporate Credit Cards
 - Financial Controls for Vendor Reimbursements
 - Community Development Grants
 - Economic Development

I. Reserves

The County will maintain cash reserves within the following targets to ensure adequate cash flow, avoid the need for short-term borrowing and minimize the tax levy rate:

Fund #	Fund Name	Targeted Ending Cash Balance
1	General Basic	Within the range of 20-25% of combined expenditures + Secondary Roads transfer – bond funded expense
2	General Supplemental	Within the range of 20-25% of combined General Supplemental + Self-Insurance Reserve fund expenditures
3	Self-Insurance Reserve	\$0
4	Community Betterment	\$0
5	Economic Development	= Revolving loan fund balances that have not been re-invested
10	MH/MR/DD	Within the range of 10-15% of expenditures; may be adjusted as needed to maximize state funding
11	Rural Basic	Within the range of 20-25% of combined expenditures + Secondary Roads transfer
12	Rural Supplemental	20-25% of expenditures
13-15, 18, 21, 25, 26	Various funds managed by elected officials and Conservation	>= \$0
20	Secondary Roads	\$0
24	Fire protection	= June tax collections
28	Contingency Reserve	>=\$5,000,000 + accumulated reserve for 27 th pay period + inflation factor
43-45	Debt Service – Specific Projects	>= \$0
46	Debt Service - Combined	\$300,000
50-58	Capital Projects	Balance of unspent bond proceeds + capital improvement reserve

Any unassigned cash balance in the above funds that exceeds the targeted levels may be transferred for the following uses:

- Enhance a reserve for future capital expenditures
 - Offset recurring expenditures that are bonded for on a regular basis
 - Enhance reserves for risk management, employee insurance, etc.
2. The County will maintain a Self-Insurance Reserve fund. This fund will be used for the payment of claims that are not covered by purchased insurance policies. Other risk-management related expenditures may be made from this fund to the extent they are not paid from other sources. The Risk Management Committee will annually review fund activity and recommend an appropriate reserve level, which reserve level will approximate 18 months of claims history.
 3. The County will maintain an Employee Insurance Internal Service Reserve to account for insurance premiums and pay claims, premiums, and administrative fees. The reserve level will reflect a reserve for incurred but not yet paid claims as computed by the County's actuarial firm plus a claims fluctuation reserve equal to two to three months of paid claims.
 4. The County will maintain a Contingency Reserve Fund for large unanticipated shortages in other funds. This reserve will provide financial security for meeting other county obligations in the event of temporary shortfalls in other funds. The current targeted fund balance will be \$5 million. This target may be adjusted upward to provide additional security during economic downturn.
 5. The County will annually contribute to a 27th pay period reserve in the Contingency Reserve Fund to fund the extra pay period that occurs on a cash-basis every eleven years. The amount of annual contribution shall be at least equal to the amount of cash-basis savings that is realized from paying out 26 pay periods when actual days worked equate to more than 26 pay periods. County Endowment gaming taxes up to an amount equal to the 27th payday factor will be committed by the Board of Supervisors as the primary inflow for the Contingency Reserve Fund for the 27th pay period reserve.

- 6 In addition to using Contingency Reserve funds for the 27th pay period, draws on the reserves may be made 1) whenever revenues for any given year are at least \$1,000,000 less than needed to maintain current operational levels for budget stability, provided, however, that if such draw occurs, the County shall consider a plan to reduce future budget imbalances; 2) to phase-in more conservative budgeting practices such as early retirement programs, staffing reductions through attrition, external contract renegotiations, or bond refinancing; 3) to loan Reserve proceeds to another County fund with the expectation that the loan will be repaid within three years; or 4) to settle legal claims that exceed funds available in the County's self-insurance reserve.
- 7 If draws are made on the Contingency Reserve fund, the County will replenish the reserve to its minimum balance at the earliest possible fiscal opportunity. The County may use proceeds from its casino lease to replenish the Contingency Reserve fund.

J. Investment Practices

1. The County will invest in accordance with the County Investment Policy most recently adopted by the Board of Supervisors.

K. Accounting, Auditing and Financial Reporting and External Financial Relationships

1. The accounting system will maintain records on a basis consistent with accepted standards for local government accounting. The County's accounts and reporting will be consistent with State law and rules of the State of Iowa County Finance Committee.
2. Regular monthly financial reports prepared on the budgeted cash basis of accounting will be presented to management and the Board.
3. The County will annually prepare a Comprehensive Annual Financial Report (CAFR) in conformity with generally accepted accounting principles. The preparation of the CAFR has been delegated to the County Auditor's Central Accounting Division in conjunction with Board staff. Central Accounting is responsible for the selection and application of appropriate accounting principles and calculation of appropriate estimates and assumptions as disclosed in the Notes to the Financial Statements section of the CAFR. The CAFR will be prepared in compliance with the established criteria for the Government Finance Officers Association's Certificate of Achievement for Excellence in Financial Reporting and will be submitted to that award program by December 31st of each year. The CAFR shall include all necessary tables or exhibits for the County to meet its continuing disclosure obligation pursuant to its outstanding bonds.
4. An independent public accounting firm will perform an annual audit and will publicly issue a financial opinion.
5. The County's relationship with its independent accounting firm, indirect cost consultant firm, and actuarial firms will be reviewed every three years to determine if level of service is satisfactory or if a Request for Proposals should be issued.
6. The County will formally review this set of financial policies at least once every three years.

Contact: Auditor's Office
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